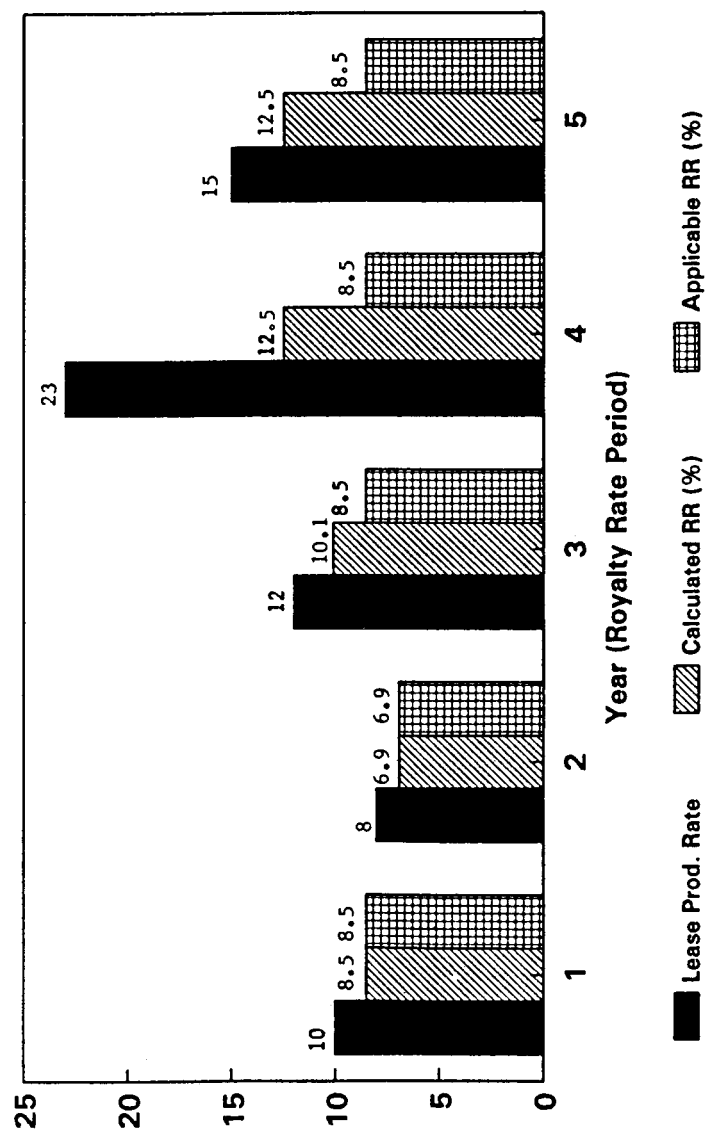


Royalty Rate (RR) Reduction Example 1: Immediate Qualification



Explanation, Example 1

1. Property production rate per well for qualifying period (August 1, 1990-July 31, 1991) is 10 barrels of oil per day (BOPD).

2. Using the formula, the royalty rate for the first year is calculated to be 8.5 percent. This rate is also the maximum royalty rate for the life of the program.

$$8.5\% = 0.5 + (0.8 \times 10)$$

3. Production rate for the first year is 8 BOPD.

4. Using the formula, the royalty rate is calculated at 6.9 percent. Since 6.9 percent is less than the first year rate of 8.5 percent, 6.9 percent is the applicable royalty rate for the second year.

$$6.9\% = 0.5 + (0.8 \times 8)$$